

Strategic Sourcing / Commodity Councils

5-6 December 2006

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Marine Corps Business Enterprise Office



2006 Veterans and Service-Disabled Small Business Conference
Veterans Doing Business with the Department of Defense



Overview

- **Marine Corps** Strategic Sourcing
- **Defense-Wide** Strategic Sourcing (DWSS)
- **Navy** Strategic Sourcing Success
- **Lessons Learned**
- **20 May 2005:** Required of **All** Agencies



Strategic Sourcing



**IMPROVED
SUPPORT TO**

THE WARFIGHTER



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Strategic Sourcing Objectives

Going beyond price reduction

- Improve support to deploying Marines
- Improve socio-economic goals achievement
- Produce rational enterprise-wide cross-functional acquisition strategies
- Reduce 'Total Cost of Ownership' for acquired goods and services
- Help standardize of acquisition business processes
- Help improve skills of Marine Corps' acquisition community
- Help free Marines for service with the fleet



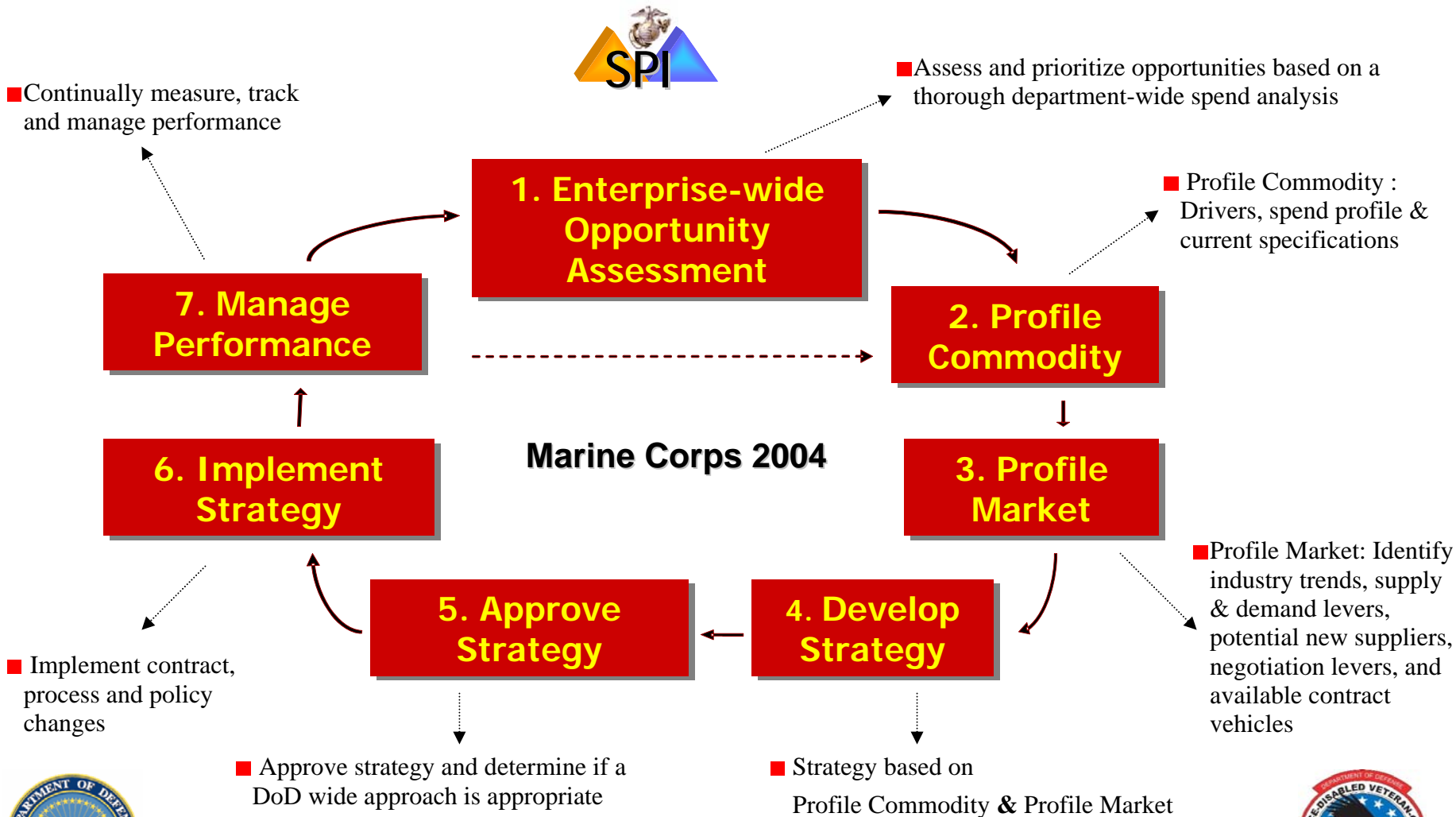
OMB Definition

20 May 2005

Strategic Sourcing is
the **collaborative and structured process of**
critically analyzing an organization's spending
and
using this information to make **business decisions** about
acquiring
commodities and services
more effectively and efficiently



STRATEGIC SOURCING PROCESS



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Strategic Environment

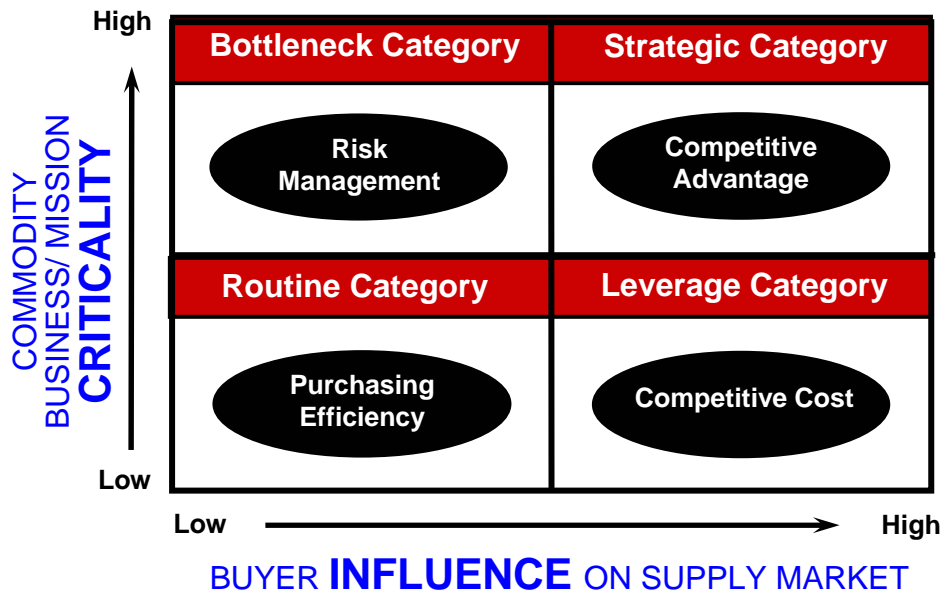
BOTTLENECK

- Ensure supply continuity i.e. reduce risk in both quality and quantity
- Avoid non-availability
- Work to move products into another category by developing new sources or modifying specifications.

ROUTINE

- Simplify the acquisition process
- Standardize, modularize
- Automate, simplify procedures.
- Achieve process efficiency.

COMMODITY POSITIONING MATRIX



STRATEGIC

- Reduce risk of non-availability while minimizing total costs.
- Integrate with a few key suppliers to optimize planning, inventories, reliability and quality.

LEVERAGE

- Concentrate volume for better leverage position.
- Achieve competitive cost.
- Work towards industry standards to increase flexibility while maintaining the required quality.



POSSIBLE SOURCING TACTICS

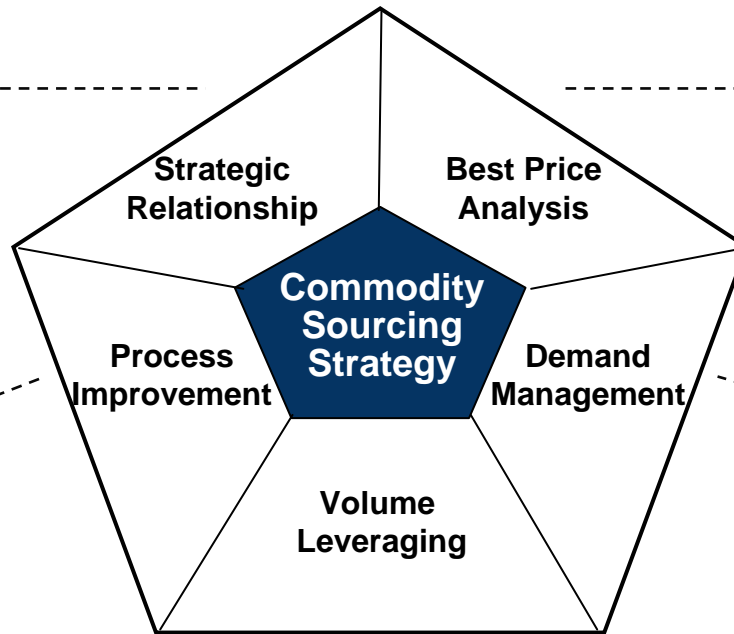


STRATEGIC RELATIONSHIP

- Establish integrated or close relationships with suppliers where both buyer and supplier work together share information, collaborate, and further each partner's goals

BEST PRICE ANALYSIS

- Evaluate and model all costs and use increase transparency and maximize competition



PROCESS IMPROVEMENT

- Streamline business processes: Improve quality, reduce cycle times, and lower total cost of ownership

DEMAND MANAGEMENT

- Address standards, requirements, and policies to reduce costs related to internal demand

VOLUME LEVERAGING

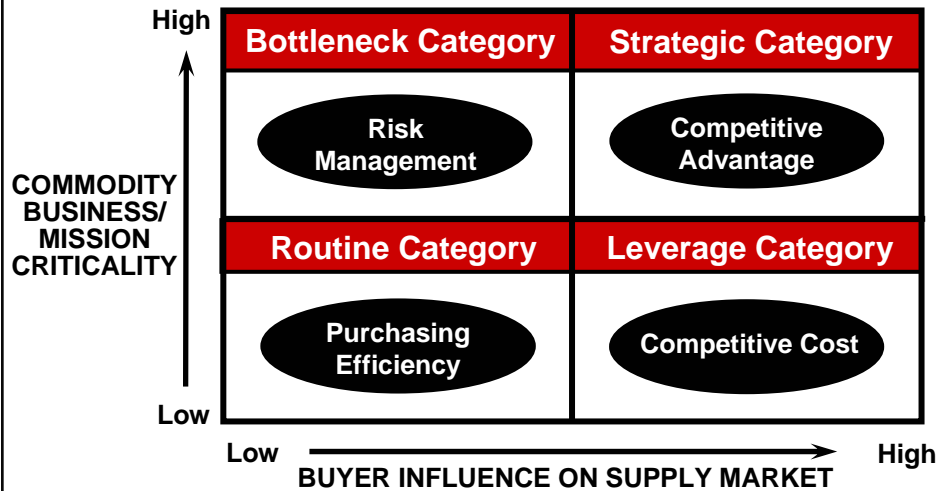
- Aggregate like goods/services across organization in order to increase leverage and negotiate better pricing, and terms and conditions



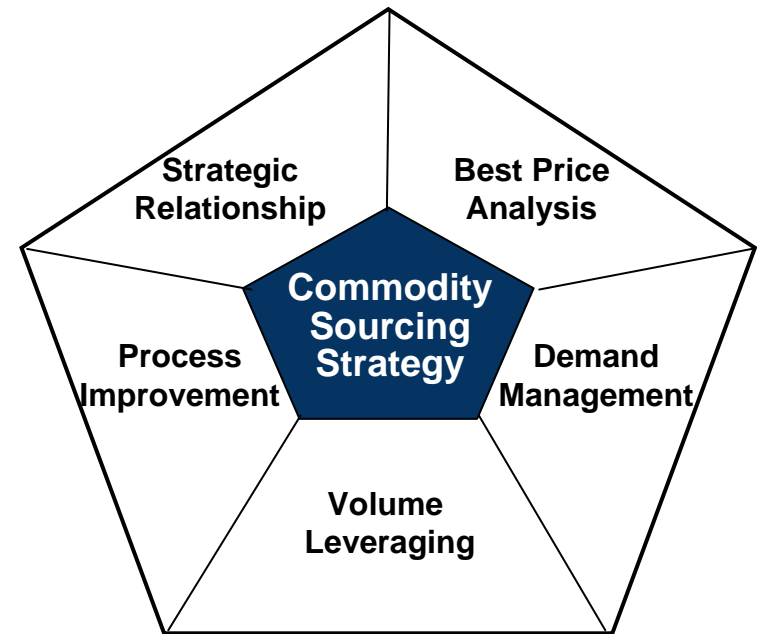
Strategy Development

Tactics tailored to the environment

COMMODITY POSITIONING MATRIX



POSSIBLE SOURCING TACTICS



OTHER SITUATION SPECIFIC FACTORS

- Supplier concentration/ fragmentation
- Variability in specs/ requirements relative to “true need”
- Pricing spread among existing contracts for same specs

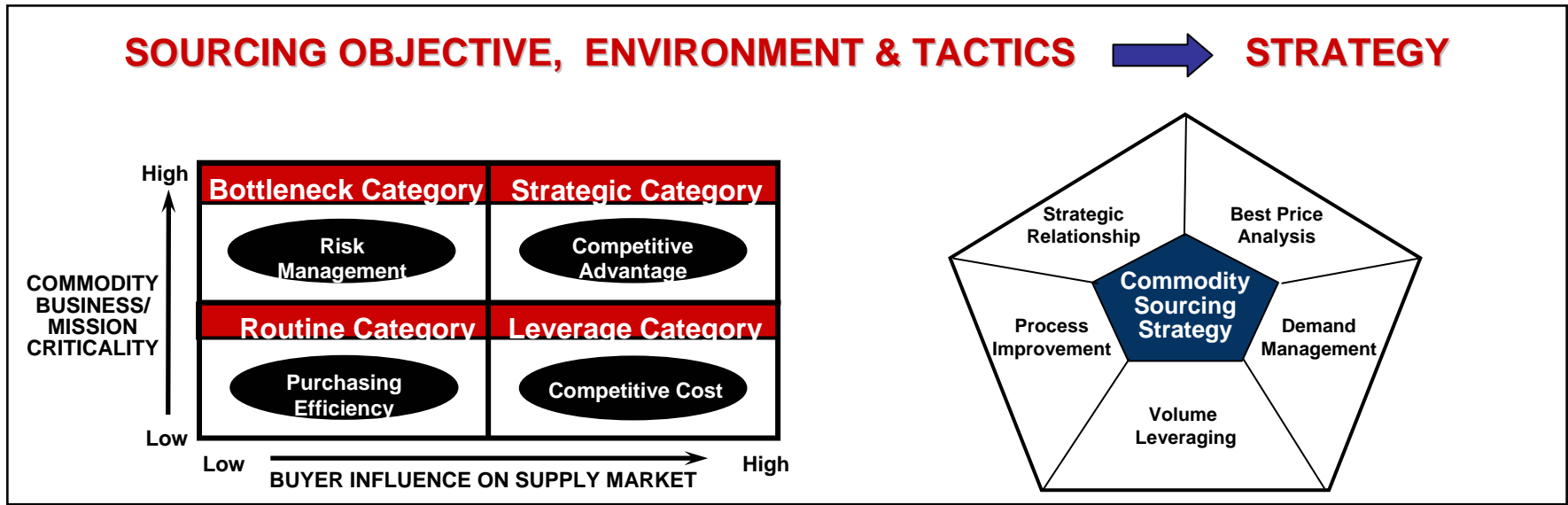
Multiple sourcing tactics may be used either simultaneously or in succession



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Quick Review



Defense-Wide Strategic Sourcing (DWSS)



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Concept of Operations (CONOPS)

- Draft CONOPS Sep 2004
- CONOPS approved 14 Jan 2005
- Key Points
 - Governance
 - Commodity Team Process
 - Strategy Implementation
 - Metrics



OMB Required Plan & Annual Report

Agency Strategic Sourcing Plan

- Governance
- Goals & Objectives
 - Cost & Performance “balanced with”
 - **Socio-economic**
- Performance Measures, Communications Strategy, & Training Strategy

Annual Strategic Sourcing Report

- Performance improvement
- **Socio economic** at the Prime Contract level

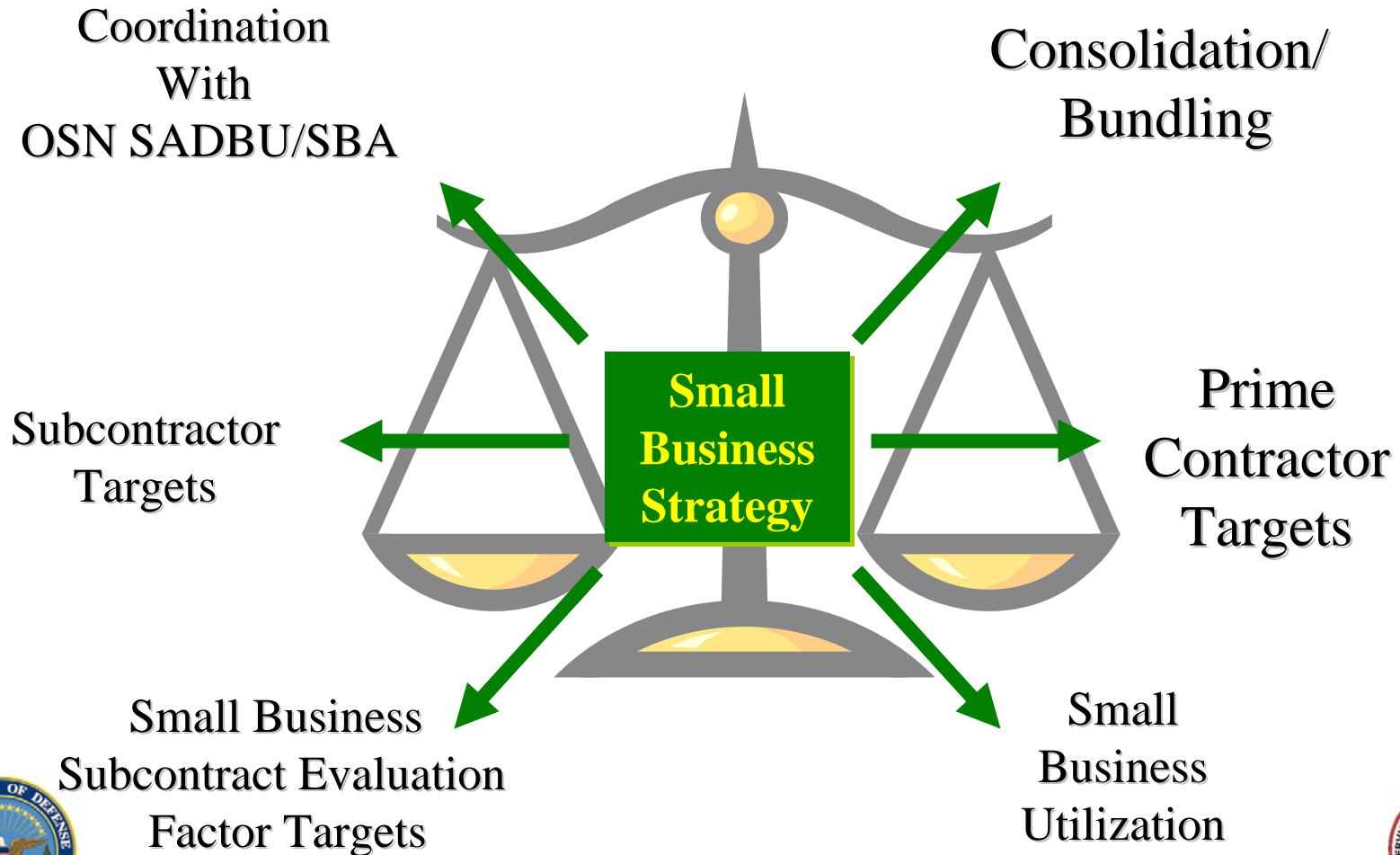
DoD’s Jan 06 report is available at

http://www.defenselink.mil/dbt/strategic_sourcing.html



Balancing Needs

Small Business Factors

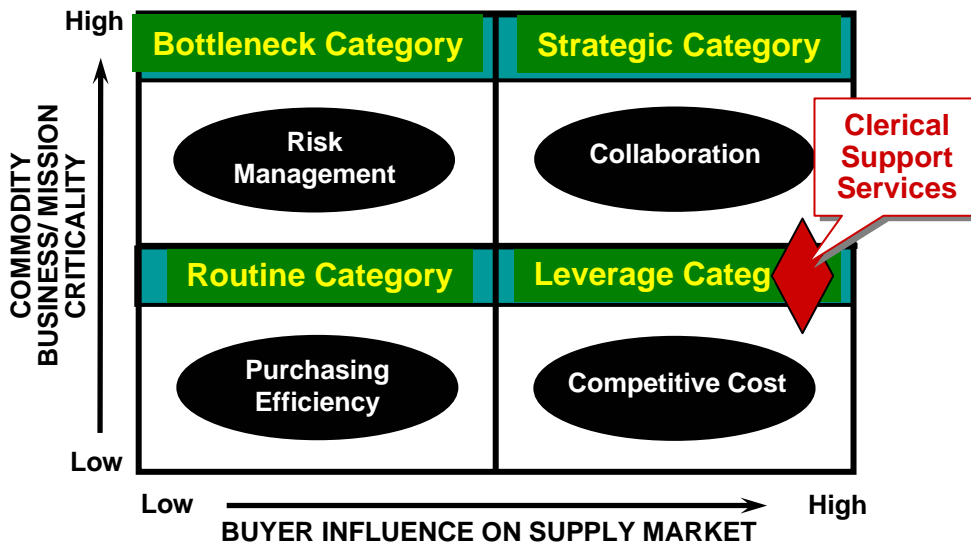


DWSS Pilot

Clerical Support



COMMODITY POSITIONING MATRIX



PRIMARY SOURCING OBJECTIVES

- Reinforce **socio-economic objectives** through continued engagement with **small business suppliers**.
- Increase competition among suppliers.
- Work collaboratively with suppliers in identifying cost reduction opportunities and/ or identifying suppliers more efficient at meeting DoD needs.

HIGH FREEDOM OF MANEUVER

These sourcing objectives can be translated into more specific sourcing tactics ...



DWSS Pilot Results

Clerical Support Services

■ Background

- Mailroom, word processing, document preparation, switchboard operators, accounting clerks, & miscellaneous
- Fragmented contracting approach with little competition
- Time & Material rather than Performance Based acquisitions

■ Goals

- Reduced total ownership cost, improved responsiveness
- Improved socio-economic goal attainment
- More visibility on enterprise (DoD) wide spend on clerical support services

■ Result

- Multiple Award contracts – task orders competed
 - Philadelphia, DC, Norfolk
- All 7 Suppliers are socio-economic (SDVOSB, 8(a), Hub Zone)
- Portal: e-business designed to reduce cycle time & reduce administrative cost



Navy Cell Phone Success

Increased Capability Reduced Cost!

	Before (Jun '04)	After (Jan '05)	Comments
# Contracts	233	3	Increased efficiency
Contract Type	Annual	Month-to-Month	Increased flexibility
Service Providers	17	3	AT&T, Nextel, Verizon
# Phones	> 10,300	< 9,300	10% reduction
Average Cost	\$50/month	\$27/month	47% reduction
Invoicing	De-centralized	Centralized	Increased efficiency
Payment	De-centralized	Centralized	Increased efficiency
Pooling	Regional	Enterprise-wide	Increased flexibility



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Lessons Learned

Why the process works

- ***Critical Mass*** – Lean team but small full time cadre
- Provides a ***fresh perspective*** on the friction points of a typically good procurement process by utilizing a structured, analytical and collaborative methodology
- ***Adds a sense of urgency*** by facilitating stakeholder discussion of issues that are often tabled due to other day to day priorities
- ***Identifies superstitions*** within organization: brings great people from different sections together to address what the process really is





Lessons Learned

Text Book Lessons

- Detailed understanding: the supply market *from the perspective of market participants* (i.e., suppliers)
- Detailed understanding: organization spend, drivers of spend, & TCO
- Participants in the procurement process take a problem solving and continuous improvement approach to their daily jobs



Thank you



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How Can I Tell if a Commodity Team is NOT Needed?

- On an Enterprise-wide basis, I can already easily produce information/data on what is being bought.
- I can easily explain the realities of the market and how well our requirements fit into the market
- I can easily explain how our sourcing strategy is thoughtfully designed to leverage our requirements to the best interest of the Marine Corps having shrewdly considered the realities of the market place
- Based on data, I can easily respond to a question on how the Marine Corps should relate to a DoD or other Service Commodity Team with a charter to look at my commodity
- And there are no significant untouched opportunities





Lessons Learned

Two-Tiered Approach

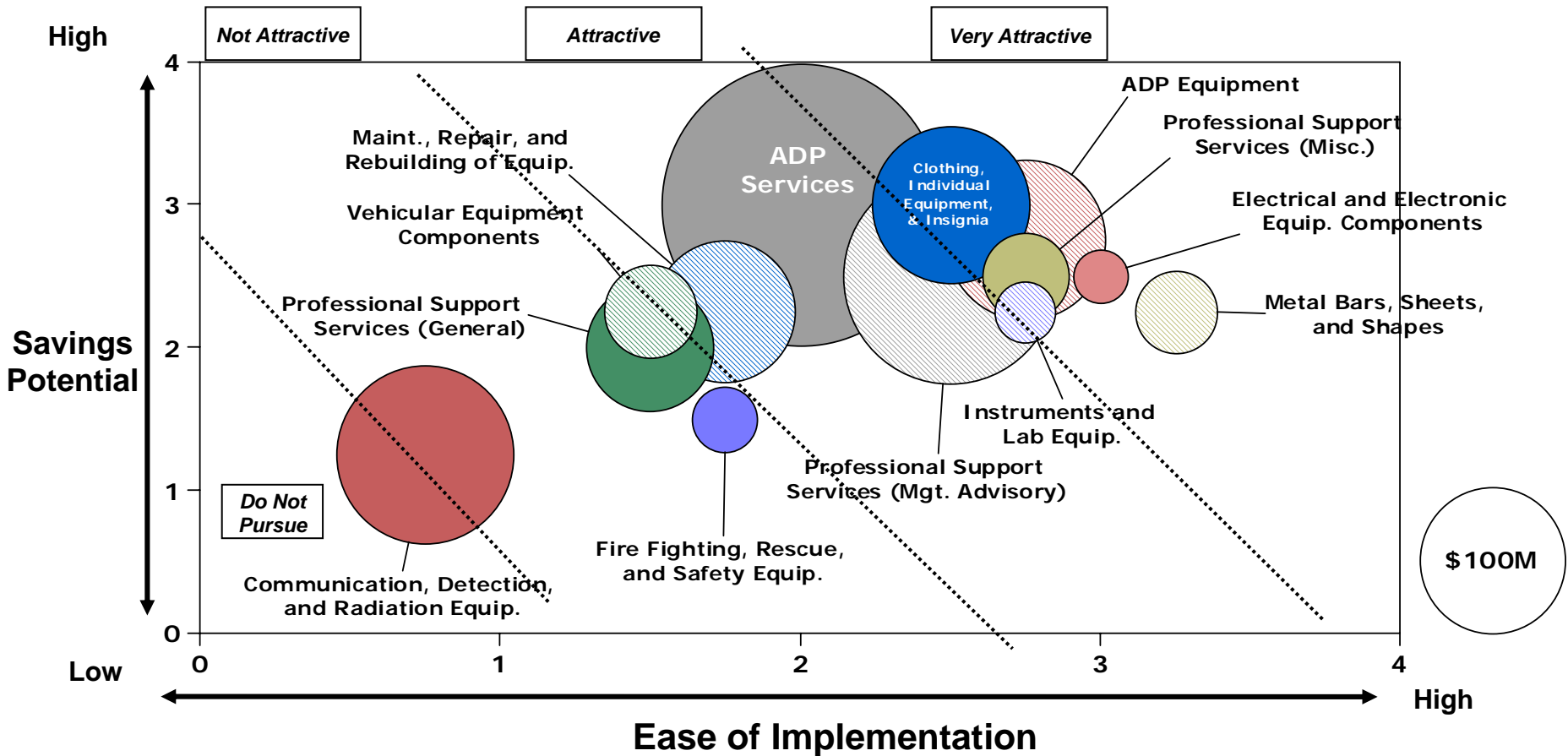
- ***Tier I (USMC Lead):*** Standard CC approach for a commodity, warranted by volume or areas of opportunity specific to the Marine Corps
- ***Tier II (Other Service Lead/ USMC Participation):*** Long-term liaison with other Service CC's in order to leverage Marine Corps needs through partnership with other Services





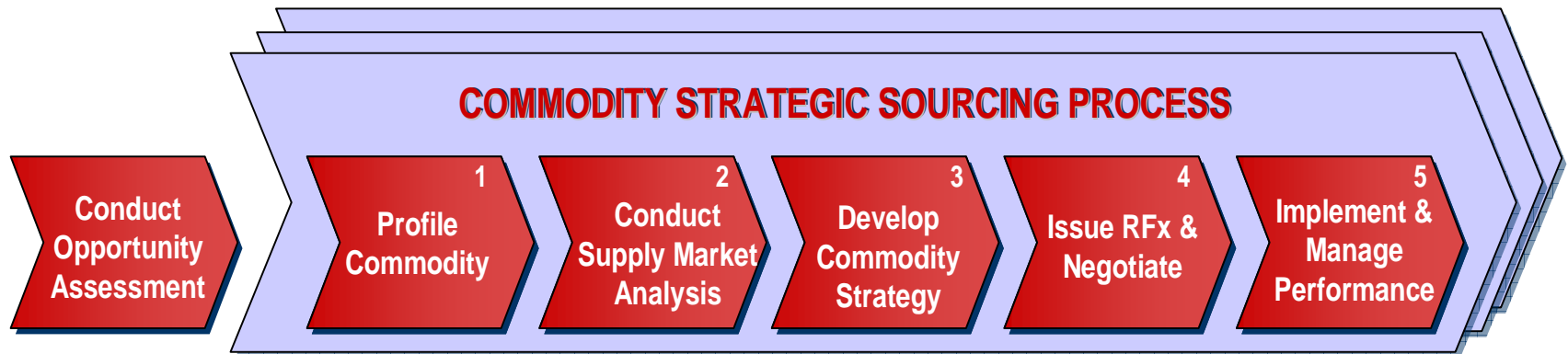
Prioritization Chart

SOURCING PRIORITIZATION



Commodity Council Process

Defense-Wide Strategic Sourcing (DWSS)



While the graphics and environments are different, the DWSS Commodity Council process is analogous to the USAF and the USMC process. The DWSS graphic was originally produced for the pilot project.



What is a Commodity?

Q: What is a Commodity?

A: It depends on who's talking.

- From OMB's definition – *product, not service*
- Marketing person – *undifferentiated product*
- Supply person – *probably a non-repairable*
- Commodities trader – *wheat, copper, corn*





Commodity

2004 USMC SPI Working Definition

- A commodity group is an aggregation of requirements within and across business units, locations, and over time that, aggregated together, have similar characteristics (e.g., technologies, markets, suppliers, value, vulnerability, management, economies of scale, scope in acquisition and management) affecting cost, performance, and other properties.
- Aggregation is *not the strategy* but is a tool for understanding critical factors that should be considered while developing the strategy.



OMB 20 May 2005

■ Background per OMB

- Federal governments buys \$300Billion/year
- Each Agency must do strategic sourcing
- CAO, CFO, & CIO are responsible

■ Requirements from OMB

- Improve acquisition of 3 commodities
- Submit plan 1 Oct 2005
- Report progress annually in January

